



HARFORD COUNTY, MARYLAND

Office of the County Auditor

FISCAL IMPACT NOTE

Bill Number 12-35

Resolution Number 25-12

Sponsor: Council President Boniface at the Request of the County Executive

James Run Tax Increment Financing

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Summary of Legislation

A RESOLUTION of the County Council of Harford County, Maryland, and
AN ORDINANCE..... providing for the designation of contiguous property in Harford County, Maryland (the "County") as a development district for purposes of the Tax Increment Financing Act (the "Development District"), and the designation of a property in the County as a special taxing district for the purposes of the Special Taxing District Act; authorizing and empowering the County to issue up to \$23,000,000.00 of its special obligation bonds, in one or more series, at a maximum interest rate of 9% per annum in order to finance or reimburse the cost of certain public improvements relating to the Districts and other costs permitted under the Acts; providing that such bonds and the interest thereon shall never constitute a general obligation of the County or a pledge of its full faith and credit; generally providing for the levy, imposition, collection and application of such special tax and the issuance of bonds in accordance with the Acts; and making certain legislative findings and providing for the further specification, prescription, determination, provision for or approval of various other matters, details, documents and procedures in connection therewith.

The bill will take effect 60 days after it is passed; the resolution will take effect on the date it is adopted by the County Council.

Fiscal Impact Summary

If passed, the bill and resolution would establish the James Run Tax Increment Financing (TIF) and Special Taxing Districts (the "District") in order to facilitate the financing of the costs of public improvements for the District. The legislation would allow Harford County to borrow up to \$23 million on behalf of the owners of the property. The estimated cost of the proposed public improvements is \$21.3 million.

The proposed bonds would be a special obligation of the County and **not** a general obligation of the County that pledges the County's full faith and credit or taxing power. The debt will be repaid from property and special taxes levied on the properties located within the District. While the debt is outstanding, the County will not have the benefit of the additional revenue that would otherwise be generated from the increased property values, because that amount will be used to service the debt. The estimated annual debt service during the first 10 years of the project is \$1.7 million.

~ Preserving Harford's past; promoting Harford's future ~

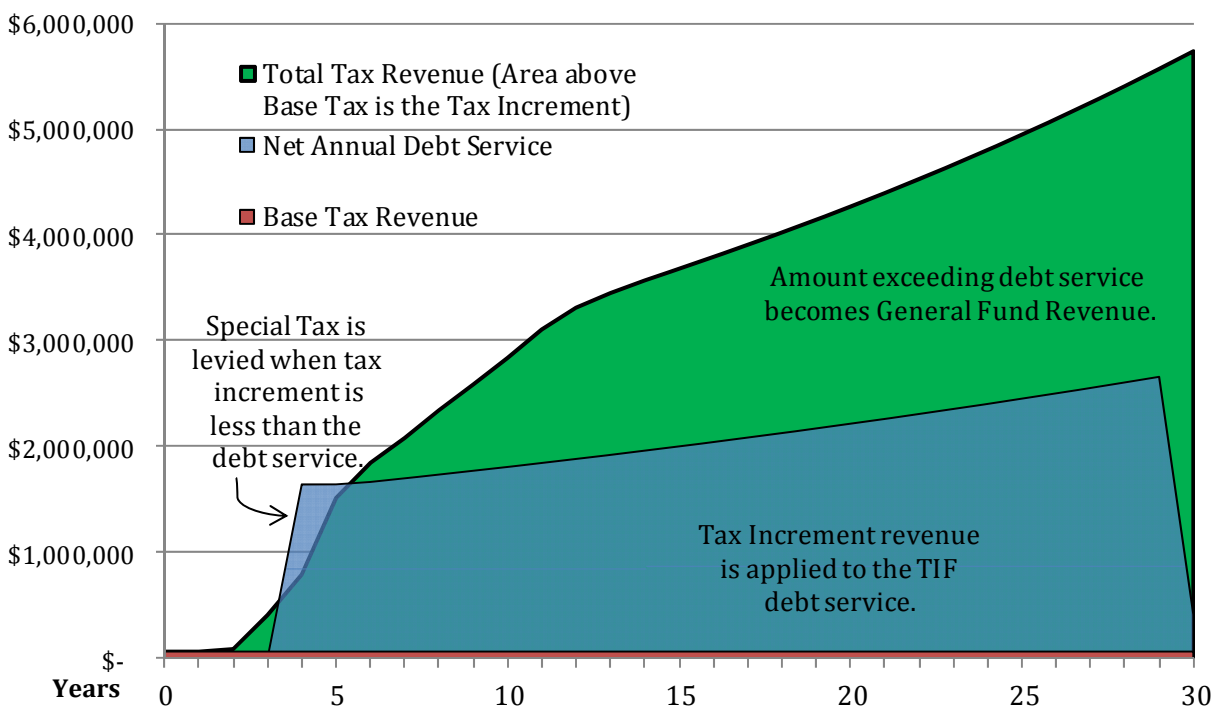
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Fiscal Analysis

Harford County is being asked to establish a Tax Increment Financing (TIF) development district known as James Run Development District pursuant to Sections 12-201 et seq. of the Economic Development Article of the Annotated Code of Maryland (the “Tax Increment Financing Act”) and Section 9-1301 of Article 24 of the Annotated Code of Maryland (the “Special Taxing District Act”). The James Run development consists of approximately 111 acres located at the intersection of Interstate 95 and Maryland Route 543.

A TIF is a public financing method that is used to subsidize redevelopment, infrastructure, and other community improvement. In order to promote development, a government body agrees to borrow money on behalf of a developer to pay for the major infrastructure that is needed to build a community. Improvements generally include water and sewer connections, roadways and intersections. As property values increase because of the development within the district, the property tax on the additional (incremental) assessed value is used to repay the debt. If the increment tax is not enough to pay the minimum debt payments, a special tax is levied on the properties within the district to make up the difference. If the increment tax exceeds the minimum debt payments, the surplus reverts to the government’s general fund. The public improvements become property of the government. The rationalization for a TIF arrangement is that the completion of a public project, ideally, will result in an increase in the value of surrounding real estate, which generates additional property tax revenue and potential sales and income tax revenue. Additionally, a TIF allows the cost of the public improvements to be distributed primarily to the stakeholders who directly benefit from those improvements. The illustration below depicts the basic TIF cash flows.



The key to a successful TIF is determining the proper balances between property uses, timeline for full development, debt financing terms, increased cost of public services and the government's expectations for indirect benefits such as surrounding property value increases and job creation.

A fiscal impact analysis was prepared by Municap, Inc. Public Finance (Municap) and was included in the bill's supporting documents. We have used that analysis in addition to our knowledge of the TIF as a financing method and the County's operations to prepare the analysis below.

Property Type and Use

The proposed James Run District is located in a Mixed Office (MO) District zoning classification. According to the Harford County Zoning Code, section 267-61, Mixed Office is "designed to promote major economic development opportunities, including corporate offices, research and development facilities and high-tech services which create significant job opportunities and investment benefits". Among the specific permitted uses and requirements for MO are the following:

- Only the following transient residential uses shall be permitted: (a) Country inns, tourist homes and resorts; and (b) Lodging houses, or lodging houses with conference centers.
- Retail and service other than professional services and corporate office uses may be incorporated into the overall project for up to 25%.
- Professional services and corporate office uses shall not be limited to 25% of the overall project.
- A minimum of 15% of the area preserved as vegetated open space.
- Maximum impervious surface of 85%.

The most recently submitted development plan calls for the following uses and lease rates:

Use	Office	Retail	Pad Site	Lodging Houses	
Square Feet	540,000	300,000	14,500	636 Rooms	656,500
% of Total	35.7%	19.9%	1.0%	43.4%	
Projected Pricing	\$30 per square foot	As an outlet mall, \$22- \$29.50 per square foot	Unknown	\$98 per night or \$1,459 per month. This will vary depending upon whether rented daily, weekly, monthly, etc.	

The above figures are projections, as the developers have not confirmed any leases or proposed tenants for the Development. Additionally, "Hotels" are not allowed in the MO zone, but "Lodging Houses" are. The Harford County Code makes small distinctions between the two; based on the public hearing testimony for bill 11-32, lodging houses are expected to be upscale transient accommodations, not serving as permanent residence.

Timeline for Development

The development plan for the site, submitted to the County on 7/18/2012 for approval, is currently under review. Within that plan, the developers have modified their plan for Lot 6, replacing a portion of the retail space (135,600 square feet) with ten lodging house buildings, a club house, and pool. According to the plan, the lodging house and a portion of the retail will be constructed first. A summary of the construction schedule is below.

Fiscal Year	<u>Office</u>	<u>Retail</u>	<u>Pad Site</u>	<u>Lodging Houses</u>		<u>Annual Total</u>		<u>Cumulative Total</u>	
	Sq. Feet	Sq. Feet	Sq. Feet	Rooms	Sq. Feet	Sq. Feet	%	Sq. Feet	%
2015	-	60,000	-	-	-	60,000	4.0%	60,000	4.0%
2016	-	60,000	4,500	128	170,446	234,946	15.5%	294,946	19.5%
2017	-	60,000	10,000	129	171,777	241,777	16.0%	536,723	35.5%
2018-2022	300,000	120,000	-	379	314,277	734,277	48.6%	1,271,000	84.1%
2023-2027	240,000	-	-	-	-	240,000	15.9%	1,511,000	100.0%
TOTAL	540,000	300,000	14,500	636	656,500	1,511,000	100.0%		
%	35.7%	19.9%	1.0%		43.4%				

Financing Terms

The bill authorizes James Run Development District's designation as a "Special Taxing District" in order to provide funding for the public improvements on the property. It also authorizes the County to issue up to \$23 million in bonds to fund the costs of the project. TIF qualified costs (i.e. water and sewer infrastructure, storm management infrastructure, road improvements, project management and bond issuance and administration costs) are estimated to be \$21.3 million, as summarized below. An additional \$6.7 million for public improvements will come from sources other than the TIF proceeds.

Sources of funds:

Bond Proceeds	\$ 23,000,000
Interest earned in the improvement fund	\$ 39,497
Total sources of funds	\$ 23,039,497

Uses of funds:

Public Improvement costs (TIF)	\$ 14,614,036
Issuance Cost	\$ 300,000
Underwriter's discount	\$ 402,500
Capitalized interest	\$ 5,422,962
Reserve fund	\$ 2,300,000
Total uses of funds	\$ 23,039,498

Debt service payments for years 4 through 10 of the project average \$1.7 million. Since the bonds would be an unrated special obligation, the County would not be responsible for debt payment to the bondholders. The debt service amount is expected to be offset by capitalized interest and reserve fund income to arrive at the Net Annual Debt Service obligation listed below.

Fiscal Year	Net Annual Debt Service	Estimated Tax		Special Tax Owed
		Increment Revenues	Surplus/ (Deficit)	
2013	\$ -	\$ -	\$ -	\$ -
2014	\$ -	\$ -	\$ -	\$ -
2015	\$ -	\$ 23,531	\$ 23,531	\$ -
2016	\$ 1,641,836	\$ 331,610	\$ (1,310,226)	\$ 1,310,226
2017	\$ 1,642,473	\$ 700,729	\$ (941,744)	\$ 941,744
2018-2022	\$ 8,676,667	\$ 9,557,691	\$ 881,024	\$ 260,708
2023-2027	\$ 9,607,898	\$ 14,743,855	\$ 5,135,957	\$ -
2028-2032	\$ 10,636,971	\$ 17,679,102	\$ 7,042,131	\$ -
2033-2037	\$ 11,775,453	\$ 20,544,979	\$ 8,769,526	\$ -
2038-2041	\$ 10,728,424	\$ 23,867,316	\$ 13,138,892	\$ -
Total	\$ 54,709,722	\$ 87,448,813	\$ 32,739,091	\$ 2,512,678

Source: Tax Increment Financing Report prepared by MuniCap, Inc. as of 8/20/2012

Municipal, Inc. estimates that, for the first few years of the project, the tax on increased property assessments will not be sufficient to meet the TIF obligations. In that case, a special tax will be levied on the properties in the District; the maximum special tax for tax year 2012-2013 is an estimated \$2.14 million. The maximum special tax will increase 102% each year. If increment tax collected on the property in the District exceeds the TIF obligation is met, it will be general fund revenue for the County.

Cost of Public Services

Harford County's largest public service is its public school system. Since the development project will not include permanent residences, the need for additional capacity in local schools should be limited to only those people who use the lodging houses as a transition to a permanent residence. Municipal's projections include an additional 58 students or \$331,352 in costs paid by the County. Our estimate assumes that only about one tenth of that amount would result from transitional housing.

Similarly, non-permanent residences could be expected to have a lower than average level of interaction with Community Services, Housing and General Government offices whose costs are not necessarily driven by population.

It is reasonable to expect that the development will require public safety services, such as fire and police response, as a result of increased structures and occupancy. However, it is difficult to determine the specific fiscal impact on those services without an actuarial analysis; we do not take exception with Municipal's estimate. However, for the first few years during the project's construction phase, we expect less impact because of lower occupancy. Spending for public services should generally increase in the same manner as general population growth, not specific development. We do not anticipate the need for additional budget appropriations in the upcoming year as a direct result of this development.

Municap's analysis estimates that the County's increased costs as a result of the James Run Development will be \$1.1 million. We estimate that the annual cost to the County will be closer to \$500,000 after construction completion (2025) and much less in the first 3 to 5 years. Both estimates are summarized below.

	<u>Municap</u>	<u>County Auditor</u>
General Government		
Treasury	\$ 36,957	
Community Services	25,417	
Health	14,294	
Housing and Community Affairs	1,770	
Elections	5,992	
Parks and Recreation	33,672	
Economic Development	7,952	
Appropriation to State	5,818	
Public safety		
Sheriff	453,964	\$ 327,108
Emergency Services	82,407	82,407
Volunteer Fire Companies	45,886	45,886
Environmental services	17,126	17,126
Education		
Harford County Public Schools	331,352	34,337
Harford Community College	53,075	
Total projected annual expenditures	\$ 1,115,682	\$ 506,864

Government's Value Added Expectations

We were unable to determine if Municap's estimates for employment, retail sales and lease income are reasonable because leases for the development have not been confirmed to the County Council.

Municap estimates that when the project is completed in 2042, permanent revenues to Harford County will be approximately \$3.8 million per year. This does not include one-time revenues from transfer tax when properties are sold. Further, that figure does not include projected income taxes. Municap additionally estimates that the James Run Development will create 4,157 permanent jobs and 2,234 temporary jobs.

Additionally, Municap's estimate assumes 100% occupancy for the development. According to Brad Thomas (Forbes.com, 10/5/2012), "Reis Inc. reported that regional mall vacancy rates in the U.S. fell to 8.7 percent in the third quarter". Also, "In Q2, 2012, the U.S. hotel industry's occupancy increased 3.1 percent to 65.1 percent ... according to Smith Travel Research (STR)." (Hospitalitynet.org, 9/21/2012). Real estate services provider Cassidy Turley reported Harford office space vacancy rates at 35.32% in its 2012 third quarter update. Using that information, we tempered Municap's projections to estimate that annual personal property tax to the County will be \$57,627 or 26.9% less than projected.

	Projected Personal Property Tax Revenue	Projected Vacancy Rate	Revenue Reduction
Office	\$ 119,570	35.32%	\$ 42,232
Retail	\$ 64,259	8.70%	\$ 5,591
Pad Sites	\$ 3,494	8.70%	\$ 304
Lodging Houses	\$ 27,221	34.90%	\$ 9,500
Income Reduction for Vacancy			\$ 57,627

The County government's expectation of the value added by the TIF is a matter of policy and cannot be fully quantified by the Office of County Auditor. To provide some additional context, we have summarized the County's experience related to the Beechtree TIF which was approved by the County Council in 2010. In 2011, Harford County issued \$14 million of special obligation bonds for the Beechtree Estates project. The Beechtree Estates Development District consists of 768 planned residential units on approximately 300 acres of property located in Aberdeen, Maryland.

It is important to note that Beechtree is a residential development (taxed at a rate of \$1.042 per \$100 of assessed value), while James Run is expected to contain primarily commercial and retail space. Those properties will have additional business personal property which is taxed at \$2.605 per \$100 of assessed value.

For fiscal Year 2012, revenues met the project's expenses resulting in zero special tax. However, in fiscal year 2013, the Beechtree property owners are required to pay approximately \$779,000 to make up the difference between tax increment revenue and projected debt service costs. The distribution of the tax is noted in the table below.

<u>Classification and Land Use</u>	<u>Parcel Count</u>	<u>Special Tax</u>	
Developed			
Single Family	24	\$ -	
Townhouse	53	\$ -	
Public Property			
Active Open Space	1	\$ -	
Open Space	22	\$ -	
Passive Open Space	15	\$ -	
Property	2	\$ -	
Water Booster Station	1	\$ -	
Undeveloped			
Remainder Parcel	1	\$ 472,052	Average \$ 472,052
Single Family	187	\$ 207,392	\$ 1,109
Townhouse	342	\$ 99,556	\$ 291
Grand Total	648	\$ 779,000	

The project's developers are not building and selling the units as fast as first planned. They have built 68 units, 74 units have been sold and 49 deals were closed. This puts the project 89 units behind its projected absorption schedule. Various public improvements are

underway. Information from the developer's July 1, 2012 summary of construction and spending follows this note.

Analysis of Amendments

Seven amendments to bill 12-35 were introduced on October 16, 2012. Amendments 1 through 6 are administrative; they clarify that both the tax increment and the special tax are pledged to repayment of the debt and the laws that are applicable to the property owners. These changes do not change the above fiscal analysis. Amendment 7 renames one of the bill attachments. It does not change the above fiscal analysis.

Amendment 1 to Resolution 25-12 has no fiscal impact.

Two amendments to bill 12-35 and two amendments to resolution 25-12 were introduced on November 13, 2012. Amendment 2 to Resolution 25-12 and 8 to Bill 12-35 added a requirement that construction of the commercial-retail component and the lodging house component commence and proceed simultaneously. These amendments have no fiscal impact. Amendment 3 to Resolution 25-12 and 9 to Bill 12-35 requires the owners to deed to the county a 2 acre parcel within the development district to be used for a future public safety site. The average current assessed value of 2 acres of land in the development district is \$104,603.

Amendment 4 to Resolution 25-12 and Amendment 10 to Bill 12-35, introduced on November 20, 2012, have no fiscal impact. The amendments require final approval by the County Council of any final form of documents, including the Indenture, with respect to the Project, by an Administrative Resolution.

Additional Information

Previous Introductions: None

Fiscal Note History: Version 5 (11/20/2012) based on bill and resolution, as amended November 20, 2012.

Fiscal Analysis was prepared by Chrystal Moore, County Auditor.

Inquiries may be directed to (410)638-3161.

Status of Beechtree Estates Project as of 7/1/2012**Bond Proceeds****Sources of Funds**

Principal Amount	\$	14,000,000
Investment Earnings		3,175
Total	\$	14,003,175

Uses of Funds

Project Fund	\$	9,940,982
Administrative Expense Fund		60,506
Capitalized Interest Account		1,463,464
Debt Service Reserve Fund		1,400,000
Costs of Issuance, including Underwriter's Discount		1,138,223
Total	\$	14,003,175

Bond funded costs:

Budget for Bond funded costs	\$	9,940,982
Spent by June 30, 2012	\$	8,221,675
Completion		82.7%

Tax Increment Calculation

Phased in Assessed Value as of 7/1/2012	\$	31,782,101
- less Base Year Assessment	\$	16,332,500
Incremental Assessed Value	\$	15,449,601
Tax Rate (per \$100 of Assessed Value)		1.042
Estimated Tax Increment Revenues	\$	160,985

Special Tax Calculation

	FY2012	(projected) FY2013
Debt Service	\$ 1,050,000	\$ 1,050,000
Administrative expenses	30,600	29,000
Contingency	-	21,825
Total expenses	\$ 1,080,600	\$ 1,100,825
 Tax increment revenues	 \$ -	 \$ 160,985
Available Capitalized Interest	1,178,395	159,300
Available Reserve Fund Investment Income	-	-
Estimated Reserve Fund Investment Income	1,120	1,540
Administrative Expense Fund Balance at 3/31/2011	30,600	
Total available funds	\$ 1,210,115	\$ 321,825
 Special Tax Requirement	 \$ -	 \$ 779,000

Status of Beechtree Estates Project as of 7/1/2012

<u>Budget Progress</u>	Budget	Spending	Percent
Soft Costs			
Engineer and Legal	\$ 1,100,000	\$ 964,680	87.7%
Inspection fees	350,000	226,060	64.6%
Surety bond	215,000	158,072	73.5%
Stake outs (survey)	630,000	340,542	54.1%
Soils monitoring and testing	530,000	261,521	49.3%
Subtotal - Soft Costs	\$ 2,825,000	\$ 1,950,875	69.1%
Hard Construction Costs			
Phase 1- Construction Costs*	\$ 5,300,000	\$ 4,878,997	92.1%
Phase 2- Construction Costs*	-		
Phase 3- Construction Costs*	725,000	207,047	28.6%
Phase 4- Construction Costs*	2,610,000	-	0.0%
Road improvements	1,670,000	719,248	43.1%
Fencing, sidewalks, signs, etc	100,000	74,000	74.0%
Subtotal - Hard Constructin Costs	\$ 10,405,000	\$ 5,879,292	56.5%
Contingency	665,000	-	0.0%
Construction management	694,750	391,508	56.4%
Total Costs	\$ 14,589,750	\$ 8,221,675	56.4%
Less: Owner's Contribution	\$ 4,648,768	\$ -	0.0%
Total Bond Funded Costs	\$ 9,940,982	\$ 8,221,675	82.7%

*Construction costs include costs associated with clearing, grading, sediment erosion controls, storm water management, water infrastructure, sewer infrastructure, sub-base preparation, curb, gutter, drainage structures, paving, and other reasonably related costs required in order to build the public improvements and place them into service.

Construction Progress

Includes all construction progress, including but not limited to, TIF qualified improvements

1. Storm drain installation and storm water improvements:
 - a. Storm Water Improvements – Phase 1 – 80% complete
 - b. Storm Drain Improvements – Phase 1 – 95% complete
2. Utility improvements, including water and sewer:
 - a. Sewer improvements – Phase 1 – 90% complete; Phase 3 – 33% complete
 - b. Water improvements – Phase 1 – 95% complete; Phase 3 – 33% complete
3. Road improvements:
 - a. On-site road improvements – Phase 1 – 78% complete; Phase 3 – 33% complete
 - b. Off-site road improvements – 35% complete
4. Street light and traffic signal improvements:
 - a. Phase 1 – 20% of the street lights are operational
 - b. Phase 3 – 0% of the street lights have been installed
5. Site work, including landscaping, fencing, sidewalks and signs:
 - a. Phase 1 – 25% of landscaping has been installed
 - b. 20% sidewalk infrastructure installed
 - c. 25% of road signs installed